

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Urban Indian Health Board, Inc. ("UIHB") dba Native American Health Center 3124 International Blvd. Oakland, CA 94601 Alameda County		Amount Requested: \$400,000	
Project Site: 3124 International Blvd., Oakland, CA 94601		Requested Loan Term: 15 years	
Facility Type: Community Clinic		Date Requested: December 5, 2002	
		Resolution Number: HII-131	
Policy Issue: Under the HELP II Program guidelines, the Authority requests a 1 st lien position for gross revenues which includes accounts receivable. UIHB is unable to comply with this condition having previously pledged its accounts receivable to another lender on an existing loan. However, staff recommends approval of an exception to the guidelines based on the strength of real property collateral.			
Use of Loan Proceeds: Loan proceeds will be used to complete remodeling and renovations to a clinic-owned facility, adding a large group counseling room and kitchenette.			
Type of Issue: HELP II Loan			
Prior HELP II Borrower: No			
Financial Overview: UIHB is a growing organization that has demonstrated consistent, strong profitability in the last three years. UIHB has strong liquidity and little long-term debt. Proforma debt service coverage is strong at 5.52x.			
Sources of Revenue: (FYE 6-30-02)	<u>Amount</u>	<u>Percent</u>	
Contracts	\$5,842,756	58%	
Medi-Cal	1,780,217	18%	
Other program service fees	949,247	10%	
Donations & contributions	1,010,134	10%	
Other income	<u>435,653</u>	<u>4%</u>	
Total revenue and support	<u>\$10,018,007</u>	<u>100%</u>	
Estimated Sources of Funds:		Estimated Uses of Funds:	
HELP II Loan	\$400,000	Remodeling	\$506,960
Borrower's Funds	<u>113,960</u>	Authority Fees	<u>7,000</u>
Total Sources	<u>\$513,960</u>	Total Uses	<u>\$513,960</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term of 15 years for Urban Indian Health Board, Inc., subject to receiving an appraised value providing a total loan to value of no greater than 95% and subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

Urban Indian Health Board, Inc. (“UIHB”)

December 5, 2002

Resolution Number: HII-131

POLICY ISSUE: UIHB took out a \$400,000 loan from Wells Fargo Bank in April 2002 which is secured by accounts receivable (as well as inventory and equipment). HELP II Loan Program guidelines require securing gross revenues, which include accounts receivable. Staff recommends approval of an exception to the guidelines based on the strength of real property collateral with an appraised value of \$800,000 as of July 1998.

I. PURPOSE OF FINANCING:

UIHB is in the midst of a multi-phase facility upgrade project and is remodeling and renovating the ground floor of its clinic building. UIHB seeks this loan to complete the final phases which includes a multipurpose room to serve the needs of its growing and diversified clientele.

Remodeling of existing facility\$506,960

UIHB’s Fruitvale clinic is located in a 21,000 square foot, four story building that was purchased by UIHB in 1983. In 2002, UIHB initiated a four-phase remodeling and renovation of its ground floor.

Phase I and II (funded with a Cedillo-Alarcón grant and a grant from Alameda County), was completed earlier this year. In addition to major fire safety and electrical system upgrades, the renovation created space for a new centralized registration area, patient waiting room, billing department, youth health staff offices, and youth violence prevention work area. The most recent appraisal of this building, dated July 27, 1998, shows an “as is” value of \$800,000. With improvements of over \$500,000, the loan to value ratio will be approximately 30%.

This proposed HELP II loan will finance Phases III and IV of the project. UIHB proposes to renovate approximately 1,250 square feet of the building to create a multi-purpose room that will enable the organization to provide mental health services, preventative care services (including after-school health services), fitness and nutrition activities, and community health education and training. UIHB will also create offices, rest rooms and storage rooms encompassing 2,300 square feet and will renovate front & rear entries and facade.

Financing Costs	<u>7,000</u>
Authority Fee	\$5,000
Title/escrow fees	2,000
Total	<u>\$513,960</u>

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Financing structure:

- 15-year fully amortized loan term in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,144).
- Total interest payments of approximately \$63,500.
- A first position lien on the property located at 3124 International Blvd., Oakland, CA.
- A second position lien on corporate gross revenue.
- Estimated loan to value of 30%.
- LP-10 title policy insurance to be paid by AFHC prior to closing (required since construction has already begun and this policy will protect the Authority against mechanic's liens).

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II. FINANCIAL STATEMENTS AND ANALYSIS

Urban Indian Health Board, Inc. Statement of Activities (Unrestricted)

	Three-month Period Ending September 30,	For the Year Ended June 30,		
	2002 (unaudited)	2002	2001	2000
Revenues:				
Contract Revenues	\$ 1,595,067	\$ 5,842,756	\$ 4,955,946	\$ 4,342,807
Program Service Fees	699,614	2,729,464	1,857,831	2,318,395
Donations and Contributions	53,732	608,199	163,183	114,497
Rent Income (Bldg)	75,875	235,688	169,801	170,965
Interest and Dividend Income	1,570	70,841	60,923	56,427
Misc. Income	160,052	129,124	47,871	105,223
Net Assets Released from Restrictions	97,500	401,935	114,105	124,972
Total Revenues, Gains and Support	2,683,410	10,018,007	7,369,660	7,233,286
Expenses:				
Salaries and benefits-Program services	1,215,830	4,274,087	3,831,086	3,412,107
Salaries and benefits-Management and general	337,034	1,390,109	1,003,158	868,187
Contract services	103,750	743,549	657,350	660,803
Rent	148,823	510,487	307,663	283,056
Furniture & Equipment expense	44,062	334,214	114,404	207,259
Medical & Dental supplies	39,680	186,751	182,341	185,190
Repairs and Maintenance	23,739	91,685	129,760	138,025
Office & Program Supplies	50,803	190,513	123,346	131,406
Telephone	17,784	113,652	100,086	94,586
Travel	31,542	89,729	77,562	70,850
Utilities	19,520	100,545	91,456	65,576
Education & Training	17,701	93,027	93,078	57,671
Interest	9,476	38,877	14,212	21,179
Bad debt expense	-	281,460	-	130,140
Depreciation	51,225	363,612	91,665	119,912
Other expenses	87,586	373,170	355,726	266,155
Total Expenses	2,198,555	9,175,467	7,172,893	6,712,102
Loss on Leasehold Improvements Written Off	-	-	(26,521) ^(a)	-
Unrealized Gain (Loss) on Investment	-	(38,382)	635	(33,982)
Change in Unrestricted Net Assets	484,855	804,158	170,881	487,202
Unrestricted Net Assets at Beginning of Year	3,037,564	2,233,406	2,062,525	1,575,323
Unrestricted Net Assets at End of Year	<u>\$ 3,522,419</u>	<u>\$ 3,037,564</u>	<u>\$ 2,233,406</u>	<u>\$ 2,062,525</u>

^(a) Friendship House, a residential substance abuse treatment organization, paid \$65,000 to UIHB to move out of a leased property in San Francisco. The balance of leasehold improvements to the property was written-off. UIHB works closely with Friendship House in providing services to its clients and rents two properties it owns in Oakland to them.

Urban Indian Health Board, Inc.
Statement of Financial Position

	As of		As of June 30	
	September 30,			
	2002	2002	2001	2000
	(Unaudited)			
ASSETS				
Current Assets:				
Cash	\$ 445,404	\$ 408,122	\$ 297,762	\$ 176,628
Investments	1,016,200	1,014,895	1,557,160	797,892
Fees Receivable	436,046	304,691	194,778	165,040
Contracts Receivable	849,331	1,043,957	635,002	651,483
Accounts Receivable	2,274	15,788	7,394	1,443
Deposits and Prepaid Expenses	50,762	103,102	89,164	8,070
Total Current Assets	<u>2,800,017</u>	<u>2,890,555</u>	<u>2,781,260</u>	<u>1,800,556</u>
Property and Equipment, Net	2,528,988	2,344,062	1,389,645	823,716
TOTAL ASSETS	<u><u>\$ 5,329,005</u></u>	<u><u>\$ 5,234,617</u></u>	<u><u>\$ 4,170,905</u></u>	<u><u>\$ 2,624,272</u></u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts Payable	\$ 20,309	\$ 140,098	\$ 206,394	\$ 31,277
Accrued Salaries and Benefits	169,352	208,391	103,538	80,948
Accrued Vacation	265,656	265,656	173,047	135,381
Accrued Expenses	24,004	66,881	36,429	63,848
Capital Lease Payable	-	-	2,719	18,924
Tenant Deposit	-	-	-	3,000
Deferred Revenue	-	129,523	-	13,842
Loan Payable	50,000	65,051	-	-
Current Portion of Note Payable	43,095	80,000	80,000	-
Current Portion of Loans Payable	-	27,311	25,778	23,709
Total Current Liabilities	<u>572,416</u>	<u>982,911</u>	<u>627,905</u>	<u>370,929</u>
Long-Term Liabilities:				
Note Payable	286,667	226,666	306,666	-
Loan Payable	252,032	252,877	-	-
Equipment loan	-	22,519	49,667	76,713
Total Long-Term Liabilities	<u>538,699</u>	<u>502,062</u>	<u>356,333</u>	<u>76,713</u>
TOTAL LIABILITIES	1,111,115	1,484,973	984,238	447,642
NET ASSETS				
Unrestricted Net Assets	3,522,419	3,037,564	2,233,406	2,062,525
Temporarily Restricted Net Assets	695,471	712,080	953,261	114,105
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,329,005</u></u>	<u><u>\$ 5,234,617</u></u>	<u><u>\$ 4,170,905</u></u>	<u><u>\$ 2,624,272</u></u>

Financial Ratios:

	Proforma (a) FYE June 2002			
Debt Service Coverage (x)	5.52	6.51	7.30	9.61
Debt/Unrestricted Net Assets (x)	0.45	0.27	0.21	0.05
Margin (%)		8.03%	2.32%	6.74%
Current Ratio (x)		2.94	4.43	4.85

(a) Recalculates June 2002 audited results to include the impact of this proposed financing. Debt Service Coverage calculation includes a full year of principal and interest payments on a loan dated April 2002.

Financial Discussion:

UIHB is a growing organization that has demonstrated consistent, strong profitability in the last three years.

UIHB has had a 37% increase in total revenues in the last three years, while expenses have grown commensurately. UIHB has shown a significant 32% growth in contract revenue (consisting of direct and passed-through federal funds) since 2000, mostly due to adding and expanding mental health and substance abuse services and opening a clinic in Fresno. UIHB's second largest source of revenues, program service fees (consisting primarily of Medi-Cal reimbursements) have increased approximately 18%. UIHB has also been aided by its continued status as a Federally Qualified Health Center (FQHC) which enables it to receive cost-based reimbursement.

Total expenses have grown as well, including salary expense, which has grown approximately 32% as a result of expanded services in the last three years. UIHB has seen a significant 25% increase in client encounters from 2000 to 2002, mostly due to providing additional mental health and substance abuse services.

Fiscal 2002 has been especially profitable, largely due to increased donations, including a capital campaign which has raised approximately \$130,000 for this, and future, projects. Adding to UIHB's diverse revenue stream is approximately \$236,000 in rental income (from another non-profit organization which complements their services).

UIHB has strong liquidity and little long-term debt. Proforma debt service coverage is strong at 5.52x.

UIHB exhibits a strong balance sheet, with modest debt and high liquidity. UIHB's liquidity is largely due to the receipt of a \$900,000 grant in February 2001 to provide mental health services over a three year period. UIHB's strong profitability has resulted in a near-doubling of unrestricted net assets since 2000.

UIHB has gradually taken on some long-term debt (including a \$255,000 loan in November 2001 to purchase a facility and a \$400,000 loan in April 2002 for leasehold improvements to its San Francisco clinic), but has not become significantly leveraged. The addition of this loan results in a debt to unrestricted net asset ratio of 0.45x and a strong 5.52x proforma debt service coverage .

III. UTILIZATION STATISTICS:

Encounters:

	Jan-Oct	Period Ending December 31		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Medi-Cal	2,643	5,648	5,298	3,958
Medicare	374	383	314	46
Self-pay & Private Insurance	2,192	2,522	2,493	2,145
CHDP	240	178	408	459
Other	<u>4,835</u>	<u>1,898</u>	<u>1,887</u>	<u>1,912</u>
Total	10,284	10,629	10,400	8,520

IV. ORGANIZATION:

Background:

UIHB (d.b.a. Native American Health Center) is a nonprofit health care provider serving the San Francisco Bay Area and Fresno. UIHB was founded in 1972 to assist American Indians improve and maintain their physical, mental, emotional, and social well-being while respecting cultural traditions. UIHB has grown into a multi-service, multi-site organization, providing health care services to the communities of the Bay Area and Fresno.

UIHB operates a total of four licensed clinics which provide a full range of comprehensive community health care and prevention services including primary family medical care, comprehensive dental care, women's healthcare, health education, youth services, athletics programs, Women, Infants, and Children (WIC) fitness and nutrition programs, health care for the homeless, AIDS prevention and care, perinatal care, substance abuse counseling, and outpatient counseling for individuals, groups and families.

The clinic which UIHB seeks to renovate with this HELP II loan (19,960 square feet, located in Oakland's Fruitvale neighborhood) was purchased in 1983 and has been owned outright since 1995. UIHB operates a 10,000 square foot leased clinic facility in San Francisco's Mission District. UIHB also operates two leased satellite clinic facilities, in Fresno (2,200 square feet) and Alameda Point (2,000 square feet) for the 700 new residents in the transitional housing programs at the former Naval Air Station.

UIHB also manages two school-based clinics in Alameda, after-school youth services at the American Indian Public Charter School, counseling services at the Friendship House Healing Center and the Health Nations Wellness Center in Oakland. It also operates the Healthy Nations Wellness Center in Oakland, where counseling and low-cost exercise classes for persons with diabetes, older adults, youth and perinatal clients is provided.

UIHB owns two buildings in Oakland (2,144 square feet and 2,760 square feet) which it rents to substance abuse programs of Friendship House.

Contracts:

UIHB contracts with Medi-Cal, Medicare, Denti-Cal, private insurance, and has various grants/contracts with Federal, State, and County governments. UIHB was approved as a Federally Qualified Health Center (FQHC) effective November 14, 1991.

Licenses:

UIHB, dba Native American Health Center, is licensed as a community clinic by the California Department of Health Services.

Competition:

UIHB faces competition from numerous clinics, both in San Francisco and Oakland. UIHB is, however (according to management), the only provider in the five county San Francisco Bay Area that contracts with the federal Indian Health Service for health care services targeting the urban Native American community.

In San Francisco, there are eight clinics within a four mile radius. UIHB works with the closest of these clinics, Mission Neighborhood Health Center (a co-member of the San Francisco clinic consortium), to share services, including providing dental care for their clients. In Fruitvale, there are three clinics within three miles, including La Clinica de la Raza, approximately two blocks away, which mostly serves Spanish speaking clients. UIHB estimates that they have approximately 25% of the market share in both of these neighborhoods. In Fresno, the nearest clinic is six miles away.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/02^(a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Equipment loans, 1998 and 1999	\$ 121,319	\$ 49,829	\$ 49,829
Wells Fargo, November 2001	255,000	252,877	252,877
Wells Fargo, April 2002	400,000	306,667	306,667
Proposed:			
CHFFA HELP II, 2002			400,000
		<u>\$ 609,373</u>	<u>\$ 1,009,373</u>

^(a) Includes current portion

VI. SECTION 15438.5 OF THE ACT:

With the proposed HELP II loan, UIHB will save an estimated \$106,300 in interest over the life of the loan in comparison to a commercial loan rate of 7.5%. UIHB will use these savings to lower costs to clients and offer enhanced service to medical and dental departments.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term of 15 years for Urban Indian Health Board, Inc. subject to receiving an appraised value providing a total loan to value of no greater than 95% and subject to the standard HELP II loan provisions.